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Recent Developments in Staff Insurance Planning HE7403

By William C. Greenough and Francis P. King

Economic security for college staff members through group insurance plans has advanced considerably over the past decade. What are the desirable components of a college's insurance program for staff members? The Statement of Principles of the American Association of University Professors and the Association of American Colleges recommends that an educational institution's insurance program include: (1) life insurance, (2) insurance for medical expenses, including major medical expense insurance, and (3) disability income insurance covering periods of long-term total disability. This article discusses the current status of insurance benefit planning in the colleges. An article in the preceding issue of the *AAUP Bulletin* discussed recent developments in retirement planning.[1]

The financial resources available to a college must be carefully husbanded. In the allocation of funds between salaries and insurance plans, care must be taken that the insurance plans help the individual carry risks that he could not possibly carry himself, and on a more economical basis. Sound benefit planning can also assure the college that it covers risks that can cause staff members real distress, but that it does not spend money for protection not seriously needed. As the college and its faculty consider establishing or revising a plan, it is important to give careful study to the needs of the staff, to define these needs, and then specifically to seek optimum benefits with the available funds.

An appropriate question to ask, for example, is whether the largest amounts of life insurance shall be assigned to the younger staff members whose insurance needs are usually considerable and will remain so for some years, or to staff members whose insurance needs have declined, whose children are grown, and whose earnings and annuity accumulations have become substantial. Or, another question: is the major medical expense insurance plan paying for the $50- or $100-medical expenses of one staff member while failing to cover another's expenses of $2000 or $3000? Such questions as these should be asked about each type of insurance coverage, for they can greatly influence the effective use of institutional resources.

"Many college professors," writes John W. Gardner, President of the Carnegie Corporation, "are unwilling to concern themselves with practical business matters. They would do well to make an exception when it comes to the creation and adoption of sensible benefit plans. The faculty member may have limited power to control his college's decisions concerning one or another benefit plan; but he should be sufficiently informed to know a good benefit plan from a bad one, and to be an effective advocate of the kind of plan best suited to his institution. It is my own conviction that every college faculty should have a committee on retirement and insurance plans, and that this committee should have a rotating membership so that the leading faculty members would eventually be informed and discriminating judges of these matters."[2]

Life Insurance Plan

What group life insurance protection do college staff members have? Approximately half of the institutions of higher education have life insurance plans, and these institutions employ approximately two-thirds of the teachers in higher education. Eighty-six per cent of the privately supported universities and 53 per cent of private liberal arts colleges have life insurance plans. Sixty-three per cent of the publicly supported universities and 41 per cent of public liberal arts colleges have such plans. Table 1 shows the extent of life insurance plans among 980 institutions.[3] In addition to these plans, the survivor benefits of Social Security are available to the staff members of 97 per cent of the privately supported institutions and 84 per cent of the publicly supported institutions.

A college life insurance plan is not designed to replace the staff member's own individual insurance arrangements. It can, however, provide basic life insurance amounts that materially assist the individual in meeting his insurance

[1] "Recent Developments in Retirement Planning," by the same authors, *AAUP Bulletin*, Vol. 45, No. 4, Winter, 1959, pp. 502-512.

[2] Quoted from the foreword by John W. Gardner in *Retirement and Insurance Plans in American Colleges*, by William C. Greenough and Francis P. King. Columbia University Press, 1959, pp. v-vi.

[3] Statistical information for this article is taken from *Retirement and Insurance Plans in American Colleges*, by William C. Greenough and Francis P. King. Columbia University Press, 1959, 480 pages. This book discusses the philosophy and guiding principles of college staff benefit planning, methods of establishing plans, and plan provisions, and contains a survey of the retirement, life insurance, medical insurance, and disability benefits in effect in United States colleges and universities. A copy has been sent to each institution cooperating in the study.

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needs. A group plan assures the individual protection without a medical examination, and it assures the employer that all staff members can be covered, so that the problems of destitute survivors do not embarrass the institution, or tempt it to place on the payroll persons whom it might not otherwise employ.

Table 1

Life Insurance Plans, Four-Year Institutions of Higher Education

Type of Institution	Institutions with Insurance Plans: Number	Per cent of Respondents	Teachers Employed (Approx.)	Per cent
Universities				
Public	46	63.0	33,508	57.6
Private	51	86.4	41,792	93.6
Liberal Arts Colleges				
Public	23	41.1	4,367	44.1
Private	256	53.3	24,665	64.1
Teachers Colleges	46	39.7	4,170	42.1
Other	78	39.8	9,768	64.5
Total with Plans	500	51.0	118,270	67.1
Institutions without Plans	480	49.0	53,030	32.9
Total Respondents	980	100.0	171,300	100.0

Benefits

The Commission on Faculty and Staff Benefits of the Association of American Colleges recommends that "insurance on a group basis should be planned in coordination with the death benefits accorded by the retirement system." This is accomplished through the frequently used TIAA Collective Life insurance, or through graded group insurance, providing larger insurance amounts at younger ages, and grading the amount downward as the death benefit under the retirement plan increases and as families grow up and the need for protection decreases. Another method of assigning group life insurance is as a fixed sum, for example, $5,000 or $10,000, for all eligible employees; or the amount may vary by class according to salary or rank.

In addition to life insurance benefits and the death benefit of the retirement plan, there are substantial monthly survivor benefits from Social Security. These benefits go to widows aged sixty-two or over; widows of any age with children under age eighteen in their care; children under age eighteen; dependent widowers over age sixty-five; and dependent parents, sixty-five or over for men, sixty-two or over for women. The gaps in the Social Security survivor benefits should be given careful note: after the youngest child reaches age eighteen, there is no income for the widow prior to her age sixty-two, and the income from Social Security is by itself inadequate to do the whole job of bringing up a family.

Other Provisions

In establishing a life insurance plan, the college makes a series of decisions concerning (1) the classes of employees to be covered; (2) whether amounts of insurance shall be level for each class or graded down by age; (3) how much insurance shall be provided for each class; (4) whether the college should pay all or only a part of the cost; (5) whether there should be a waiting period before new employees join the plan; and (6) whether insurance should be continued after a staff member retires.

Most plans cover substantially all employees (Table 2). The colleges generally recognize that no matter what a staff member's job is, or how long or short a time he has served the college, his death may leave his family with serious financial problems. It therefore seems appropriate to include all presumably permanent, full-time employees in the life insurance plan.

Table 2

Classes of Employees Covered by Life Insurance Plans, Four-Year Institutions of Higher Education

Classes Covered	Institutions	Per cent
Substantially All Employees	370	74.0
Faculty, Administrative Officers, and Clerical and Secretarial	40	8.0
Faculty and Administrative Officers	61	12.2
Faculty only	11	2.2
Nonacademic Employees only	5	1.0
No Answer as to Classes Covered	13	2.6
Total	500	100.0

About 80 per cent of the colleges provide for employee contributions to the cost of the group life insurance plan. Where level amounts of insurance are accorded to each employee class, the employee contribution is usually expressed as a monthly amount per $1000 of insurance. Employee contributions rarely exceed 60 cents a month per $1000 of insurance; the employer pays the balance, an increasing amount as the employee grows older. Under an insurance plan grading benefits to provide the larger amounts at younger ages, the employee contribution is normally set at an amount per unit of insurance rather than per $1000 of benefits.

Most colleges bring the new employee into the insurance plan almost immediately. Plans often provide that coverage begins on the first day of the month following initial employment. This is the "immediate participa-

Table 3

Waiting Period Before Life Insurance Coverage Begins, Four-Year Institutions of Higher Education

	Faculty and Administrative Officers: Institutions	Per cent	Nonacademic Employees: Institutions	Per cent
Immediate Participation	276	60.0	176	43.0
One to Six Months	132	28.7	167	40.9
Six Months to One Year	26	5.6	43	10.5
Over One Year	15	3.3	15	3.6
Coverage Begins on a Fixed Date	11	2.4	8	2.0
Total	460	100.0	409	100.0
Not Covered	5		72	
No Answer as to Waiting Period	35		19	
Total	500		500	

tion" referred to in Table 3. A number of colleges require a longer waiting period for those groups of employees normally showing greater turnover in the early months of employment.

Under a group life insurance plan, insurance coverage ceases thirty-one days after the employee leaves his employer. The employee has the right to convert his group insurance within the thirty-one days to any form of permanent insurance offered by the insurer, except that the disability waiver of premium benefit is not part of the converted policy. The conversion is made at premium rates for individual life insurance according to his then attained age.

Two-thirds of the institutions of higher education do not continue group life insurance coverage for employees who have retired. Because of the high cost of insurance at the older ages, the college must expect to spend a substantial amount if it wishes to sustain even a modest program of group life insurance during retirement. To provide $5000 of group life insurance after age sixty-five costs on the average $480 a year; the premium is $198 a year at age sixty-five and $970 a year at age eighty-five. In contrast, the premium for a person age thirty is $18. The college considering the continuation of life insurance for retired persons must weigh carefully the appropriateness of the expenditure in relation to the actual needs of its staff members, both retired and active. Over the years, as his children become self supporting and as the death benefit of his annuity grows, the staff member's pressing need for life insurance tends to diminish. A retired employee's needs are more in the area of benefits for major medical expenses or annuity income than for life insurance.

Medical Expense Insurance

Medical expense insurance plans usually fall into two categories: (1) basic hospital-surgical-medical expense plans and (2) major medical expense insurance.

Basic Hospital-Surgical-Medical Expense Insurance

Basic plans usually cover the early expenses incurred in the hospital for a sickness or injury. As shown in Table 4, about 90 per cent of the privately supported colleges and universities provide an opportunity for coverage of employees under some kind of basic hospital-surgical-medical insurance plan. Four-fifths of these plans are Blue Cross-Blue Shield arrangements.

More than two-thirds of the basic plans in the colleges are employee pay-all plans, under which the college provides facilities for enrollment and payroll deductions of the premium but does not participate in paying the premium. Participation in employee pay-all basic medical plans varies greatly from institution to institution; it is occasionally as high as 90 per cent, yet it sometimes runs as low as 25 or 30 per cent. Participation in plans where the employer makes a contribution generally runs quite high. On some campuses, a choice of two or more basic medical plans may be available. Where Blue-Cross-Blue Shield plans are in effect, there is usually a choice as to whether to take Blue Cross only or both.

Benefits under basic plans are either of the *indemnity* or *service* type, or a combination of both. Under an indemnity plan, the policy provides for the payment of certain specified dollar benefits if the insured individual incurs an expense covered by the policy. Unless the individual assigns the benefits to the hospital or doctor providing the service, the benefit is paid directly to him. Blue Shield and insurance company plans are generally of the indemnity type. Under a service-type plan, the benefit is in the form of services rendered by the hospital or doctor; Blue Cross plans for hospital care are by far the most widespread service-type plans.

Table 4

Hospital-Surgical-Medical Plans,
Four-Year Institutions of Higher Education

	Institutions with Hospital-Surgical-Medical Plans			
Type of Institution	Number	Per cent of Respondents	Teachers Employed (Approx.)	Per cent
Universities				
Public	64	86.5	49,280	83.4
Private	55	93.2	41,724	93.5
Liberal Arts Colleges				
Public	46	82.1	8,324	84.0
Private	417	88.5	33,875	89.3
Teachers Colleges	97	83.6	8,920	90.0
Other	161	82.6	13,051	86.7
Total with Plans	840	86.5	155,174	87.9
Institutions without Plans	131	13.5	21,419	12.1
Total Respondents	971	100.0	176,593	100.0

The service benefits usually provided by Blue Cross are for semi-private hospital accommodations. The care usually includes board and room, general nursing, drugs and dressings, laboratory charges, operating room charges, use of special equipment, and X-ray. Benefits usually provide for full care in semi-private accommodations for a specified number of days (thirty, for example) and, sometimes, half care for a further number of days. If private room accommodations are used, the member patient is usually provided benefits of a given dollar amount toward board and room charges. Premium rates vary across the country, reflecting differences in hospital charges, differences in the scope of services covered, and numbers of days of care offered by the plan.

Most Blue Shield plans provide for a schedule of benefits for surgery performed in or out of the hospital and for specific dollar allowances for visits made by the doctor when the insured patient is in the hospital. Blue Shield plans do not ordinarily provide benefits for doctors' visits other than visits in the hospital.

Major Medical Expense Insurance

Because basic plans provide limited benefits, they are

not the total answer to the need for insurance protection against medical costs. Basic plans do provide for convenient prepayment and budgeting of hospital expenses; beyond this, they also provide some measure of real insurance, since they not infrequently provide benefits reaching into the areas an individual could not handle without hardship. But many medical expenses do not fall into the categories covered by basic plans; where they are covered, the benefits may stop long before expenses stop.

It was to provide a broader coverage of medical expenses and to help meet situations in which medical expenses are extraordinarily large that group major medical expense insurance was developed.

Major medical expense insurance is a relatively new form of protection; strong impetus to the adoption of this protection in the college world was provided by a study conducted by the Teachers Insurance and Annuity Association in 1956. Following this study, the Ford Foundation made an appropriation of $5,000,000 to TIAA for the development of major medical expense insurance and long-term total disability insurance for groups of staff members in higher education. The appropriation provided for the needed contingency reserves and developmental expenses. Major medical coverage is growing fast. One-third of the publicly and privately supported universities now have major medical plans and one-fifth of liberal arts colleges have such plans. Major medical plans may be added as a supplement to a basic plan or can be designed to provide the entire medical expense insurance program. Three-fourths of the major medical plans in the colleges are carried as an addition to a basic plan. Table 5 shows the number of major medical expense plans in effect in 1959.

Table 5

Group Major Medical Expense Insurance Plans, Four-Year Institutions of Higher Education

	Institutions Having Major Medical Expense Plans			
Type of Institution	Number	Per cent of Respondents	Teachers Employed (Approx.)	Per cent
Universities				
Public	24	32.4	21,038	35.6
Private	20	33.9	21,834	48.9
Liberal Arts Colleges				
Public	11	20.0	1,331	16.9
Private	99	21.2	9,130	24.1
Teachers Colleges	23	20.4	22,343	24.0
Other	32	16.5	4,914	32.9
Total with Plans	209	21.7	60,790	34.7
Institutions without Plans	753	78.3	114,425	65.3
Total Respondents	962	100.0	175,215	100.0

An "optimum major medical plan" for educational institutions was developed by TIAA as a result of its 1956 college survey. The optimum plan is designed to meet college needs as outlined by the institutions, and seeks an optimum arrangement between benefits provided and costs.

The optimum plan may be added to an existing base plan such as Blue Cross-Blue Shield or it may be adopted as the single, comprehensive health insurance plan at an educational institution. These are its main features:

1. A cash deductible amount of $100. A benefit period is established when an insured employee or dependent has, within three months or less, incurred covered expenses of more than $100 in addition to any base plan benefits. All covered expenses for one individual, regardless of cause, are used in satisfying this $100 amount.
2. A coinsurance basis of 20 per cent. During the benefit period the major medical plan pays 80 per cent of all covered expenses incurred by the insured individual above the $100 cash deductible amount and not reimbursed by any base plan. The individual pays the balance himself.
3. Duration of benefit period. An insured individual's benefit period, figured from the date of the first expense used to satisfy his deductible, continues for three years or until the end of a three-month period during which covered expenses, exclusive of any paid by a base plan, have not exceeded $50. A new benefit period is established, however, as soon as the insured individual has again paid the $100 cash deductible amount.
4. A maximum benefit amount of $15,000. Each insured individual is covered initially for a maximum of $15,000. Whenever he has received benefits of $1000 or more, he may restore his original $15,000 maximum if he can furnish evidence of insurability satisfactory to TIAA.

An actual example best illustrates the way an optimum major medical plan can absorb the impact of medical expenses. A professor was stricken with acute hepatitis, a liver infection. He was sent immediately to the hospital, where he was confined for seven weeks. His basic hospital plan paid the full room and board costs of his semi-private accommodations, $1125, and also paid $2600 for drugs and laboratory tests. But this was only the beginning of the expenses in this serious illness. Special nurses were required, costing $2000, and additional medical charges and charges for blood transfusions, serum, and blood fractions came to $6850 more. As soon as expenses not covered by the basic plan were incurred, the individual himself paid a "deductible" of $100, and the major medical plan then took over 80 per cent of the remaining expenses. The total expenses amounted to $12,575. Of the total, Blue Cross paid $3725 (30 per cent) and the major medical plan paid $7000 (56 per cent). The amount remaining for the insured to pay, including the $100 deductible, was $1850 (14 per cent). Had there been no major medical plan, this professor's bill would have been $8850 or 70 per cent of the total.

Disability Income Plans, Short-Term and Long-Term

Most periods of disability resulting from sickness or

injury are of short duration and do not constitute a substantial threat to the staff member's source of livelihood. Through a variety of means, protection of staff members against loss of income caused by short-term illness or injury has traditionally been provided by many colleges and universities. On the other hand, when a long-term total disability strikes, the economic impact on the victim and his family is usually tragic. Relatively few disabilities run beyond six months, but of those that do, some last for five, ten, twenty, or more years.

Short-Term Disabilities

Protection of staff members against loss of earnings during periods of sickness or injury lasting from a few days to six months is usually achieved in the colleges through salary continuation programs, either formal (stated in writing) or informal. Only a few institutions use insurance to provide income benefits for short-term disabilities. Many college employees are covered under Workmen's Compensation laws that provide income benefits for injuries arising in the course of employment, and for occupational illnesses.

About 60 per cent of institutions of higher education handle short-term disabilities informally, deciding each case "on its merits." Depending on the circumstances and on the judgment of college officials, the disabled staff member may be continued on full or part salary for a certain period of time, depending on the funds available. When more formal salary continuation or sick leave programs are in effect, they usually take the form of keeping the disabled staff member on full or part-pay for a specified number of days, months, or until the end of semester or academic year. Approximately one-fourth of the institutions of higher education have formal salary continuation or sick leave plans.

Long-Term Total Disability

The financial effects of a long-term total disability on the disabled staff member's family are usually more severe even than those caused by his death, because unlike death, the risk of total disability is covered by relatively little insurance to help the family through a readjustment period and to provide income thereafter. Instead, the former breadwinner becomes a dependent member of the household, in some cases requiring continual medical care and special nursing.

The TIAA survey of the colleges in 1956 indicated that a substantial majority had been confronted with one or more cases of long-term total disability in the previous ten years and, in the absence of formal insurance provisions, had attempted to meet cases in whatever manner circumstances permitted. The absence of insured plans meant wide disparity, uncertainty, and hidden costs in the handling of disability cases. There were only a few exceptions to the general absence of formal plans for total disability income. In some colleges, provision for early retirement for disability has helped disabled staff members, but unless the individual is fairly close to retirement, early retirement benefits for disability are seldom adequate.

Since July 1, 1957, the Social Security Act has provided for payment of total disability benefits to disabled persons between the ages of fifty and sixty-five; and since October 1, 1958, eligible dependents of persons receiving Social Security disability benefits are entitled to receive benefits. Under the "disability freeze" provision of the Social Security Act, eligible persons who are totally disabled but who have not yet reached age fifty, and are thus not eligible for disability income benefits, preserve their insured status so that they may receive disability benefits beginning at age 50 and retirement benefits at age sixty-five.

New Program

The 1956 Ford Foundation appropriation to TIAA made possible the development of both major medical and long-term total disability income protection for staff members in higher education.

The new group total disability coverage that was developed for the colleges provides two types of benefits: (1) a monthly cash income benefit and (2) continuation of premium payments to the individual's TIAA-CREF retirement annuity. Institutions having a TIAA retirement plan may adopt the complete program or may adopt either of the disability benefits separately. Institutions not having a TIAA retirement plan are eligible for the monthly cash income benefit but not for the continuation of annuity premiums.

The income and waiver benefits begin after the insured staff member has been totally disabled for a period of six consecutive months, and they continue during such disability until he reaches age sixty-five. The monthly income benefits during disability may be set at half salary or such lesser amount as may be established at a particular college for its plan, but may not exceed a stated maximum amount per month, the amount depending on the size of the institution.

The monthly disability income benefit stops at age 65, as does the benefit that pays the TIAA-CREF annuity premiums. At that age, the annuity payments to the individual can begin, with the individual choosing whichever of the various annuity income options he wishes. The program provides the disabled person a combination of disability and retirement income lasting throughout life.

The disability income benefits are integrated with the disability benefits of Social Security and Workmen's Compensation so that the individual will have a uniform level of benefits throughout the disability period. Through reducing the TIAA benefits by the amount of any Social Security benefits payable, the college is aided in providing a good level of benefits—at a realizable and practical cost—for the disabled staff member at all ages.

Conclusion

Staff insurance plans in institutions of higher education help meet staff members' economic needs through provisions for group life insurance, medical expense insurance (both basic and major medical), and disability income insurance. Through these group plans, the employer can provide important benefits at a cost substantially lower than if the individual were to purchase the coverages on his own. And group plans make it possible to cover everyone, including those who would not be considered insurable were they to apply for individual coverage.

The plans not only help the individual and his family cope with financial emergencies, they also help the college to compete for staff, and to attract and to retain the able personnel they require. Consequently, about two-thirds of college staff members are now covered under group life insurance plans, and about four-fifths participate in a basic hospital-surgical-medical expense plan. Major medical expense insurance, a new and rapidly growing protection, already covers about one-third of college staff members. Income benefits during long periods of total disability—insurance rarely available until three years ago—now offer protection against a financial hazard that could otherwise spell disaster.

Each of the benefits has a dollars and cents meaning to the covered staff member. Each helps make the teaching profession more attractive.

. . . a soft heart and a soft head

Dismissals [of teachers] after delays are more often caused by laziness and stupidity than by maliciousness or hardness of heart. When an instructor at the end of two years has demonstrated his unfitness for a position but the administration finds this out at the end of four years and acts at the end of eight, it has unjustifiably sucked the lifeblood of a man, perhaps an incompetent one, before discarding him, but it has done this because of laziness or even good nature in not making a prompt evaluation, and stupidity in not handling the situation while there was still a valid way. A soft heart and a soft head may make a very cruel administrator.

From "Super-Sleep — Academic Somnambulism," by Mark H. Ingraham, *Bulletin,* February, 1940, pp. 20-21.